Table of content

Acknowledgements		2
Members of the board	l of directors	3
Members of the audit	committee	4
Highlights		5
Analysis of the consol	idated financial statements	6
Management responsi	ibility for the presentation of the financial information	12
Auditors' report		13
Consolidated financial	l statements	
	Consolidated Income Statement	15
	Consolidated Comprehensive Income Statement	16
	Consolidated Balance Sheet	17
	Consolidated Equity	18
	Consolidated Cash Flows	19
	Notes to financial statements	20
Supplementary inform	nation	
	Passenger revenue by type	51
	Expenses by type	52
	Expenses by function	53
	Long-term debt	55
	Total net long-term indebtedness	59

Acknowledgements

The production of the 2007 Financial Report is the fruit of the labours of a large number of employees in the Finance and Treasury Department. I would like to thank all those who contributed, in particular the Financial Accounting Section of the Financial Management Division.

Division Head

Angèle Dubé, CA

Section Head

Daniel Charbonneau, CA

Corporate Advisors

Nicole Racine, CA Véronique Harvey, CA

Advisors

Christian Roy, CA Frédéric Thifault, CA

Analysts

Jean-Claude Joseph, CGA Diane Proulx

Technicians

Danielle Lavoie Karl-Marx Joseph

Secretary

Andrée Bernier

Luc Tremblay, CA

Treasurer and Director, Finance and Treasury Finance and Treasury Department

Members of the board of directors

Monsieur Claude Trudel

Chairman

Mayor of the Borough of Verdun

Monsieur Marvin Rotrand

Vice-Chairman Montréal city councillor Borough of Côte-des-Neiges / Notre-Dame-de-Grâce

Monsieur Pierre Lapointe

Montréal city councillor Borough of Ahuntsic - Cartierville

Monsieur Bernard Blanchet

Borough councillor of the City of Montréal Borough of Lachine

Madame Monique Worth

Montréal city councillor Mayor of the Borough of Pierrefonds-Roxboro

Monsieur Dominic Perri

Montréal city councillor Borough of Saint-Léonard

Madame Karin Marks

Mayor of the City of Westmount

Madame Brenda Paris

Transit users' representative

Madame Marie Turcotte

Paratransit users' representative

Financial Report 2007 STM

Members of the audit committee

Monsieur Pierre Lapointe

Chairman Montréal city councillor Borough of Ahuntsic - Cartierville

Monsieur Marvin Rotrand

Vice-Chairman Montréal city councillor Borough of Côte-des-Neiges / Notre-Dame-de-Grâce

Monsieur Yves Gauthier, FCA

External member First Vice-President and Chief Financial Officer Desjardins Securities

Monsieur Yves J. Beauchesne, CA, MBA, D. Fisc.

External member Vice-President, Treasury and Finance Cinéflix Productions Inc.

Highlights

STABLE REVENUE SOURCES TO ENSURE THE FUTURE OF PUBLIC TRANSIT

In 2007, our financial situation improved, primarily due to the non-recurring contribution from the City of Montréal and the growth in passenger revenue. In addition, local driving forces mobilized their efforts to provide a context favourable to the development of public transit.

In fact, several major government programs were put in place in order to make public transit a priority. Firstly, the government's public transit assistance program (PAGASTEC), the objective of which is to increase the service offer by 16% in order to increase ridership by 8% over the next five years, came to fruition thanks to the support of the ministère des Transports du Québec and the City of Montréal who are sharing its financing equally. Secondly, the public transit capital expenditures assistance program under the auspices of the Société de financement des infrastructures locales du Québec (SOFIL) is targeted at facilitating the upgrading and improvement of our aging infrastructure. Finally, the agreement among the municipalities of the Communauté métropolitaine de Montréal (CMM) for the sharing of the métro deficit ensures the recognition of the latter as metropolitan transportation equipment.

Public transit is now at the core of the sustainable development strategies and is establishing itself more and more as a preferred method of travel in Montréal. The efforts are bearing fruit with ridership throughout the network increasing by 1.1% in 2007 in comparison with the previous year, bringing the total number of trips to \$367.5 million.

A well-managed company

In 2007, Standard & Poor's and DBRS recognized the STM's solid financial performance and sound management, as well as the commitment of the governments and the Montréal agglomeration to public transit, by maintaining its credit ratings of A+ and A (high) respectively for the eighth consecutive year. The companies, however, pointed out that investment requirements still represent a challenge for the Société, particularly for infrastructure maintenance and upgrading, which are estimated at more than six billion dollars over the next fifteen years.

The financial involvement of our government partners is thus more essential than ever in order to ensure that the STM's sound financial situation is maintained and to enable it to significantly improve services for Montréalers. The sum of the initiatives undertaken to date thus offers us a glimpse of very promising results as well as an even more efficient network.

Yves Devin
Director General

Alain Savard, Eng., MBA

alain Savard

Executive Director

Management of Shared Services



Summary of consolidated income

(in thousands of dollars)	2007	2006
Operating revenues	840,895	778,166
Operating expenses	(756,835)	(734,695)
Income before non-operating components	84,060	43,471
Non-operating components	(76,341)	(63,832)
Net income (net loss)	7,719	(20,361)

The Société recorded operating revenues of \$840.9 million for fiscal year 2007, while operating expenses amounted to \$756.8 million, resulting in income before non-operating components of \$84.1 million. Once the non-operating components of \$76.3 million are deducted, the Société ends fiscal year 2007 with a net profit of \$7.7 million.

Summary of operating revenues

(in thousands of dollars)	2007	2006
Passengers	415,655	394,734
Contribution from the City of Montréal	306,038	278,000
Subsidies from the Government of Quebec	35,448	27,993
Regional contributions	53,656	52,356
Contribution from municipalities outside the Montréal		
agglomeration (Réseau de transport de Longueuil in 2006)	3,939	1,803
Other revenue	26,159	23,280
	840,895	778,166

Revenues rose by \$62.7 million in comparison with 2006, resulting primarily from a combination of the increase in passenger revenue of \$21.0 million (including \$5.4 million in regional revenues), a non-recurring increase of \$29.0 million in the contribution from the City of Montréal and an increase of \$7.5 million in the subsidies from the Government of Quebec.

The rise of \$15.6 million in passenger revenue, excluding the regional revenue, is attributable to the fare increase in an amount of \$14.4 million. The opening of the new métro stations in Laval generated revenue of \$3.8 million thanks to the sale of individual fares at these three new stations. On the other hand, a decrease of \$2.6 million resulted from a change in customer usage habits. In fact, a transfer from cash payments to monthly passes or strips of tickets was noted, thus reducing the Société's revenue.

The City of Montréal made an special non-recurring contribution of \$29.0 million in comparison with 2006 in order to erase the Société's accumulated operating deficit of \$13.6 million for 2006 as well as the anticipated operating deficit for the current year. On the other hand, an amount of \$1.0 million was deducted from its contribution due to the transfer of certain surveillance activities in the métro previously provided by the Société.

Financial Report 2007 STM

Analysis of the consolidated financial statements

Summary of operating revenues (cont'd)

As for the subsidies from the Government of Quebec, the establishment of a new government assistance program for improving public transit services means that for each dollar invested in increasing the service offer, the government pays a contribution of up to 50% of the expenses deemed admissible. This program became a reality in 2007 with additional aid of \$5.1 million corresponding to an increase of close to 3% in the service offer. This new program stems from the Quebec policy on public transit, which is targeted at increasing public transit ridership by 8% between now and 2012. This new government aid could reach \$48.0 million in 2011 if the growth in the Société's service offer reaches a level of 22.5%. Finally, the Government of Quebec increased the subsidy for Paratransit by \$1.9 million in comparison with last year.

The contribution from the municipalities outside the Montréal agglomeration arises from the adoption of a draft agreement by the Government of Quebec relating to the rules for the sharing of the métro deficit for a period of five years from 2007 to 2011. The total contribution from the municipalities outside the Montréal agglomeration is pre-established and fixed for the period of the agreement.

The increase of \$2.8 million in other revenue is attributable in great part to advertising royalties that were \$1.6 million higher than in 2006 as well as to the increase of \$1.2 million in rental revenue. This revenue comes primarily from Transgesco Limited Partnership (held exclusively by the Société) through its partnership with Métrocom Limited Partnership who develop the commercial potential of rental space.

Summary of operating expenses

(in thousands of dollars)	2007	2006
Bus and métro service	715,094	695,021
Paratransit service	41,741	39,674
	756,835	734,695

Operating expenses show an increase of \$22.1 million, \$20.1 million for the bus and métro service and \$2.0 million for the Paratransit service.

The increase in the expenses for the bus and métro service results primarily from the opening of the métro in Laval, representing \$10.4 million, and from the increase of \$4.2 million in the expenses related to maintenance activities in the bus network.

The increase in the Paratransit expenses results from a growth of some 7.4% in the trips carried out in comparison with 2006. The cost increase arises primarily from the taxi service.

Non operating components

(in thousands of dollars)	2007	2006
Government contributions and subsidies	60,770	60,353
Interest and financing costs	(40,807)	(38,787)
Amortization of tangible capital assets	(89,157)	(77,284)
Amortization of intangible assets	(6,286)	(6,396)
Excess of the expense for employee future benefits		
over the contributions paid	(7,407)	(7,035)
Revenue from the sinking fund investments	6,546	5,317
	(76,341)	(63,832)

Non-operating components show an increase of \$12.5 million. This increase is almost entirely due to the increase in the amortization expense for tangible capital assets, which itself is a result of the massive investments in the upgrading of aging infrastructure over the past few years.

The government contributions and subsidies of \$60.8 million consist of subsidies of \$41.3 million relating to capital assets (the aid program for the financing of "traditional" capital assets from the Ministère des Transports du Québec and the new aid program for public transit capital assets from the Société des infrastructures locales du Québec - SOFIL) as well as regional subsidies and contributions of \$19.5 million relating to financing (interest on the long-term debt).

Other comprehensive income

(in thousands of dollars)	2007
Change in the unrealized gains and losses	
on the available-for-sale assets	(617)
Change in the gains and losses on the derivatives	
designated as cash flow hedges	7,282
	6,665

Following the adoption of the new sections on financial instruments in the CICA Handbook, the Société must present a new statement called "Consolidated Comprehensive Income". The purpose of this statement is to present the change in the fair values of the sinking fund investments as well as the changes in the fair values of the effective portion of the cash flow hedge instruments. These changes are unrealized and therefore have no impact on the Société's net income.

Consolidated balance sheet at december 31, 2007

LES ÉLÉMENTS DE L'ACTIF

(in thousands of dollars)	2007	2006
Short-term		
Cash and short-term investments	72,031	13,066
Sinking fund investments	6,518	44,137
Subsidies receivable	184,355	52,665
Regional contributions receivable	27,052	26,284
Contribution receivable from municipalities		
outside the Montréal agglomeration		
(Réseau de transport de Longueuil in 2006)	3,939	902
Other receivables	36,841	36,920
Inventories of supplies and replacement parts	27,746	26,489
Fair value of the derivative financial instruments	8,359	115
	366,841	200,578
Sinking fund investments	110,862	76,602
Tangible capital assets	1,470,755	1,341,125
Intangible assets	20,293	20,584
Accrued benefit asset	_	47
Receivables to be allocated to the repayment		
of the long-term debt	404,231	224,665
Other long-term assets	9,102	10,544
	2,382,084	1,874,145

The assets show an increase of \$507.9 million in comparison with 2006 resulting primarily from the increases of \$131.7 million in subsidies receivable, \$129.6 million in tangible capital assets and \$179.6 million in receivables to be allocated to the repayment of the long-term debt. The assets consist of the following principal elements:

a) Sinking fund investments

The sinking fund investments are the investments in the 11 sinking funds dedicated to the repayment of certain long-term debts. The short-term portion reflects the repayment of the long-term debt from the sinking fund that will take place during the following year.

b) Subsidies receivable

The increase of \$131.7 million results from amounts receivable from the Government of Quebec over the next year for subsidies relating to tangible capital assets under various aid programs. In addition, this increase includes an amount of \$16.5 million from the City of Montréal as part of the public transit capital asset assistance program from the Société de financement des infrastructures locales du Québec (SOFIL).

c) Other receivables

The other receivables consist of regional revenues of \$8.2 million receivable from the Agence métropolitaine de transport, work accident payments recoverable of \$0.6 million, tax claims in the amount of \$3.4 million from various governments, customer receivables of \$19.7 million and other receivables totalling \$4.9 million.

Consolidated balance sheet at december 31, 2007 (cont'd)

d) Inventories of supplies and replacement parts

The inventories consist primarily of parts used in the maintenance and repair of the Société's equipment. They include parts manufactured internally for a total amount of \$4.8 million at December 31, 2007 (\$4.2 million in 2006).

e) Fair value of derivative financial instruments

This item shows the fair value of the heating oil swaps that the Société holds to protect itself against the effects of fluctuations in the price of diesel fuel.

f) Tangible capital assets

This item represents the net value of the Société's tangible capital assets. The change between the 2006 value of \$1 341.1 million and the 2007 value of \$1 470.8 million can be explained by acquisitions of \$219.7 million reduced by amortization of \$89.2 million and by the non-amortized value of tangible capital assets disposed of in the amount of \$0.8 million.

The principal acquisitions for the year consisted of bus purchases in the amount of \$30.9 million (CA-118), the program for renovation of fixed equipment in the amount of \$105.1 million (CA-52, CA-109, CA-116 and R-058), as well as the equipment upgrade project and the new integrated fare sales and collection system in the amount of \$34.2 million (R-010).

Under a potential agreement with the Agence métropolitaine de transport, in 2008 the Société could become the owner of the assets and debt relating to the extension of the métro on the territory of the City of Laval. This would have the effect of increasing this item by an amount of approximately \$750.0 million. This potential agreement is disclosed in note 30 under "Event subsequent to the date of the balance sheet".

g) Intangible assets

Intangible assets include software with a net value of \$20.3 million.

h) Receivables to be allocated to the repayment of the long-term debt

The receivables to be allocated to the repayment of the long-term debt correspond to the amounts of the subsidies receivable from the ministère des Transports du Québec.

The increase in the receivables to be allocated to the repayment of the long-term debt results from the fact that the Société issued more subsidized debt in 2007 than in 2006.

Under a potential agreement with the Agence métropolitaine de transport, in 2008 the Société could become the owner of the assets and debt relating to the extension of the métro on the territory of the City of Laval. As the ministère des Transports du Québec would subsidize this debt in its entirety, this item would increase by approximately \$750.0 million. This potential agreement is disclosed in note 30 under "Event subsequent to the date of the balance sheet".

i) Other long-term assets

This item includes a deposit of \$6.7 million for the purchase of buses and other elements in the amount of \$2.4 million.

Financial Report 2007 STM

Analysis of the consolidated financial statements

Consolidated balance sheet at december 31, 2007 (cont'd)

LIABILITIES

(in thousands of dollars)	2007	2006
Short-term		
Short-term loans	70,950	205,809
Accounts payable and accrued liabilities	176,429	135,775
Fair value of derivative financial instruments	22,456	16,343
Current portion of long-term debt	64,030	79,979
	333,865	437,906
Long-term debt	867,653	588,893
Accrued benefit liability	119,987	112,627
Deferred subsidies	821,093	508,753
	2,142,598	1,648,179

The liabilities show an increase of \$494.4 million, consisting of a decrease of \$104.0 million in the short-term liabilities and an increase of \$598.4 million in the long-term liabilities. The decrease in the short-term liabilities is primarily due to the reduction of \$134.9 million in short-term loans. The increase in the long-term liabilities results from increases of \$278.8 million in the long-term debt, \$7.4 million in the accrued benefit liability and \$312.3 million in the deferred subsidies.

a) Accounts payable and accrued liabilities

The accounts payable and accrued liabilities consist of supplier payables and accrued liabilities of \$72.9 million, salaries and wage benefits of \$49.7 million, sick leaves payable of \$5.1 million, vacations payable of \$28.0 million, holdbacks on contracts and security deposits of \$0.9 million, accrued interest of \$9.5 million and other payables of \$10.3 million.

b) Fair value of derivative financial instruments

This item includes the fair value of swaps that the Société holds to protect itself against interest and exchange rate risks.

c) Long-term debt

At December 31, 2006, the long-term debt stood at \$668.9 million. During the year the Société proceeded with an issuance of \$350.6 million. Repayment of the debt amounted to \$81.8 million, where a gain of \$6.0 million on exchange rate variation was recognized. Thus, the long-term debt stood at \$931.7 million at December 31, 2007.

Under a potential agreement with the Agence métropolitaine de transport, in 2008 the Société could become the owner of the assets and debt relating to the extension of the métro on the territory of the City of Laval. This would have the effect of increasing this item by an amount of approximately \$750.0 million. This potential agreement is disclosed in note 30 under "Event subsequent to the date of the balance sheet".

Consolidated balance sheet at december 31, 2007 (cont'd)

d) Accrued benefit liability

This item includes amounts recognized on the balance sheet as employee future benefits, which include pension plans as well as other employee future benefits (post-employment and post-retirement).

e) Deferred subsidies

Under a potential agreement with the Agence métropolitaine de transport, in 2008 the Société could become the owner of the assets and debt relating to the extension of the métro on the territory of the City of Laval. As the ministère des Transports du Québec would subsidize this debt in its entirety, this item would increase by an amount of approximately \$750.0 million. This potential agreement is disclosed in note 30 under "Event subsequent to the date of the balance sheet".

EQUITY

(in thousands of dollars)	2007	2006
Equity	239,486	225,966

The equity shows an increase of \$13.5 million in comparison with 2006, representing the net profit of \$7.7 million for 2007 and the accumulated comprehensive income of \$5.8 million.

Total net long-term indebtedness

(in thousands of dollars)	2007	2006
Long-term debt	931,683	668,872
Amounts accumulated in the sinking fund	(117,380)	(120,739)
Receivables to be allocated to the repayment		
of the long-term debt	(455,004)	(259,428)
Investment expenses (over-financing) to be financed		
net of subsidies	(44,350)	68,762
	314,949	357,467

The total net long-term indebtedness represents the total debt for which the Société is responsible, including the participation of its partners. This indicator can be expected to trend higher over the coming years to clearly reflect the massive investment required to upgrade the Société's aging infrastructure, estimated at more than \$6.2 billion over a fifteen-year period.

This increase in the indebtedness will be eased either by the subsidies whose rates per project will be higher than in the past or by a lessening in the need to resort to the issuance of long-term debt due to the cash financing of certain projects under government assistance programs such as the one implemented this year by the Société de financement des infrastructures locales du Québec (SOFIL).



Management responsibility

FOR THE PRESENTATION OF THE FINANCIAL INFORMATION

Under article 136 of the *Loi sur les sociétés de transport en commun* (L. R. Q. chapter S-30.01), the Financial Report of the Société de transport de Montréal for the fiscal year ended December 31, 2007, was submitted to the Board of Directors of the Société on May 7, 2008.

The consolidated financial statements and all information appearing in this Financial Report are the responsibility of the management of the Société and have been approved by the Board of Directors. Management has also ensured that there is agreement between the consolidated financial statements and all other information disclosed in the Financial Report.

The consolidated financial statements contain certain amounts that are based on the use of professional judgement and estimates, the presentation of which gives due consideration to their materiality. Management established these amounts in a reasonable manner so as to ensure that the consolidated financial statements provide, in all material respects, a true picture of the financial position of the Société.

The Société's management maintains internal accounting and administrative quality control systems to ensure the integrity and objectivity of the financial information. Management considers that these internal control systems, the purpose of which is to provide a reasonable degree of certainty that the financial information is pertinent, reliable and exact, that the policies of the company are followed, that the operations are carried out in accordance with the appropriate authorities and that the assets of the Société are properly recorded and safeguarded, provide reasonable assurance that the accounting records are reliable and an appropriate foundation for the preparation of the consolidated financial statements.

The Board of Directors exercises its responsibility with regard to the consolidated financial statements contained in the Financial Report primarily through its Audit Committee, which is composed of members of the Board of Directors and external members. The Audit Committee reviews the consolidated financial statements and recommends their approval by the Board of Directors.

The consolidated financial statements have been audited jointly by Samson Bélair/Deloitte & Touche s.e.n.c.r.l., whose services were retained by the Board of Directors on the recommendation of the Audit Committee, and by the Auditor General of the City of Montréal.

Alain Savard, Eng., MBA

alain Savard

Executive Director

Management of Shared Services

Luc Tremblay, CA

Treasurer and Director

Finance and Treasury

Finance and Treasury Department

Auditors' report

TO THE MEMBERS OF THE BOARD OF DIRECTORS

OF THE SOCIÉTÉ DE TRANSPORT DE MONTRÉAL

We have audited the consolidated balance sheet of the Société de transport de Montréal at December 31, 2007 and the consolidated statements of income, comprehensive income, equity and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Société as at December 31, 2007 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.

Chartered Accountants

Janus Kylais Milatter Touch men .

Montréal April 23, 2008 Michel Doyon, CA

City of Montréal Auditor General

Montréal

April 23, 2008



Financial Report 2007 STM

$Consolidated\ financial\ statements$

FOR THE YEAR ENDED DECEMBER 31, 2007

(in thousands of dollars)	Note	2007	2006
OPERATING REVENUES			
Passengers	5	415,655	394,734
Contribution from the City of Montréal ^(a)		306,038	278,000
Subsidies from the Government of Quebec	6	35,448	27,993
Regional contributions	7	53,656	52,356
Contribution from municipalities			
outside the Montréal agglomeration			
(Réseau de transport de Longueuil in 2006)	8	3,939	1,803
Other revenue	9	26,159	23,280
		840,895	778,166
ODED ATIMO EVDENICES			
OPERATING EXPENSES		71 5 00 4	005 001
Bus and métro service		715,094	695,021
Paratransit service		41,741	39,674
		756,835	734,695
INCOME DEFODE THE FOLLOWING COMPONENTS		0.4.000	40.474
INCOME BEFORE THE FOLLOWING COMPONENTS		84,060	43,471
Government contributions and subsidies	10	60,770	60,353
Interest and financing costs	11	(40,807)	(38,787)
Amortization of tangible capital assets		(89,157)	(77,284)
Amortization of intangible assets		(6,286)	(6,396)
Excess of the expense for employee			
future benefits over the			
contributions paid		(7,407)	(7,035)
Revenue from sinking fund investments		6,546	5,317
		(76,341)	(63,832)
NET PROFIT (NET LOSS)		7,719	(20,361)

 $^{^{(}a)}$ Includes a non-recurring contribution of \$29.0 million for 2007.

$Comprehensive\ consolidated\ income$

FOR THE YEAR ENDED DECEMBER 31, 2007

(in thousands of dollars)	2007 *
Net profit	7,719
Other comprehensive income	
Unrealized gains (losses) on the sinking fund investments	(190)
Reclassification to net income of the realized (gains) losses	
on the sinking fund investments	(427)
Change in the gains and losses	
on the sinking fund investments	(617)
Unrealized gains (losses) on interest and exchange rate swap contracts	
designated as cash flow hedges	4,479
Reclassification to net income of the realized (gains) losses	
on the interest and exchange rate swap contracts	
designated as cash flow hedges	2,803
Change in the gains and losses on interest and exchange rate swap contracts	_
designated as cash flow hedges	7,282
Other comprehensive income	6,665
Comprehensive income	14,384

^{*} On January 1, 2007, the Société adopted the requirements of Section 1530 of the CICA Handbook, *Comprehensive Income*, as mentioned in note 2c).

(in thousands of dollars)	Note	2007	2006
ASSETS			
Short-term			
Cash and short-term investments		72,031	13,066
Sinking fund investments	12	6,518	44,137
Subsidies receivable	13	184,355	52,665
Regional contributions receivable		27,052	26,284
Contributions receivable from municipalities		,	,
outside the Montréal agglomeration			
(Réseau de transport de Longueuil in 2006)		3,939	902
Other receivables	14	36,841	36,920
Inventories of supplies and replacement parts		27,746	26,489
Fair value of the derivative financial instruments	21	8,359	115
		366,841	200,578
Station found in materials	10	110.000	70.000
Sinking fund investments	12	110,862	76,602
Tangible capital assets	15	1,470,755	1,341,125
Intangible assets	16	20,293	20,584
Accrued benefit asset	23	_	47
Receivables to be allocated to the repayment	17	404 221	224 CCE
of the long-term debt Other long-term assets	17 18	404,231	224,665
other long-term assets	10	9,102	10,544
		2,382,084	1,874,145
LIABILITIES			
Short-term			
Short-term loans	19	70,950	205,809
Accounts payable and accrued liabilities	20	176,429	135,775
Fair value of the derivative financial instruments	21	22,456	16,343
Current portion of long-term debt	22	64,030	79,979
		333,865	437,906
Long torm dobt	22	867,653	588,893
Long-term debt	22	007,003	200,033
Accrued benefit liability	23	119,987	112,627
Deferred subsidies	24	821,093	508,753
		2,142,598	1,648,179
EQUITY		239,486	225,966
		2,382,084	1,874,145

Commitments (note 27) Contingencies (note 29)

Consolidated equity

FOR THE YEAR ENDED DECEMBER 31, 2007

(in thousands of dollars)	Note	2007	2006
Equity at beginning of year		225,966	246,327
Net profit (net loss)		7,719	(20,361)
		233,685	225,966
Accumulated other comprehensive income			
at beginning of year	2	(864)	
Other comprehensive income		6,665	
Accumulated other comprehensive income			
at end of year	25	5,801	
Equity at end of year		239,486	225,966

(in thousands of dollars)	Note	2007	2006
Operating activities			
Net profit (net loss) for year		7,719	(20,361)
Non-cash items:			
Amortization of the deferred loss on derivative			
financial instruments and of the deferred gain on			
currency exchange		694	1,578
Amortization of subsidies relating to tangible			
capital assets		(41,317)	(42,700)
Amortization of intangible assets		6,286	6,396
Amortization of tangible capital assets		89,157	77,284
Loss (gain) in value of derivative financial instruments		4,323	(1,993)
Loss on disposal of tangible capital assets		755	489
Change in the receivables to be allocated			
to the repayment of the long-term debt		(869)	317
Change in the excess of the expense for employee			
future benefits over the contributions paid		7,407	7,035
		74,155	28,045
Net change in the non-cash components			
of the working capital	26	(80,009)	5,215
Cash flow related to operating activities		(5,854)	33,260
Investment activities			
Acquisition of tangible capital assets		(219,649)	(213,851)
Disposal of tangible capital assets		107	37
Acquisition of intangible assets		(5,995)	(67)
Acquisition of sinking fund investments		(48,222)	(49,099
Disposal of sinking fund investments		50,904	67,851
Amortization of premiums and discounts on			
sinking fund investments		64	1,904
Change in other long-term assets		(120)	(1,484
Cash flow related to investment activities		(222,911)	(194,709)
Financing activities			
Receipt of receivables to be allocated to the			
repayment of the long-term debt		34,763	37,722
Change in derivative financial instruments		828	(14,275
Change in short-term debt		(134,859)	89,390
Issuance of long-term debt		350,616	114,000
Repayment of the long-term debt		(81,814)	(97,381
Exchange loss (gain) on long-term debt denominated			
in foreign currency		(5,991)	3,173
Receipt of deferred subsidies		124,187	29,813
Cash flow related to financing activities		287,730	162,442
Net increase in cash and cash equivalents		58,965	993
Cash and cash equivalents at beginning of year		13,066	12,073
Cash and cash equivalents at end of year		72,031	13,066

1 Governing statutes and nature of activities

The Société de transport de Montréal (hereinafter the Société) is incorporated under the *Loi sur les sociétés de transport en commun* (L. R. Q. chapter S-30.01) and is responsible for organizing and providing public transit, primarily on the territory of the island of Montréal.

The Société is exempt from corporate income tax under paragraph 149 (1) (c) of the Income Tax Act and under article 984 of the *Quebec Taxation Act*.

2 Changes in accounting methods

a) Financial Instruments - Recognition and Measurement

On January 1, 2007, the Société adopted the requirements of Section 3855 of the CICA Handbook, *Financial Instruments – Recognition and Measurement*. This section covers the standards for the recognition and measurement of a financial instrument on the consolidated balance sheet as well as the standards for the presentation of gains and losses in the consolidated financial statements. The available-for-sale financial assets, the assets and liabilities held for trading and the derivative financial instruments, whether designated as hedges or not, must now be measured at the fair value. The loans and receivables and the other liabilities, for their part, are measured at cost.

The Société carried out the following classifications:

- Cash and short-term investments are classified as assets held for trading and are measured at the fair value. The gains and losses resulting from the periodic reevaluation are recorded in income.
- The sinking fund investments are classified as available-for-sale assets and are thus measured at the fair value, with changes recorded in other comprehensive income at the end of each period. The gains and losses are included in net income upon derecognition of the investments.
- The subsidies receivable, contributions, other receivables and receivables to be allocated to the repayment of the long-term debt are classified as loans and receivables and are initially measured at the fair value, with the subsequent periodic reevaluations being recorded at amortized cost using the effective interest rate method.
- The short-term loans, payables and accrued liabilities and long-term debt are classified as other liabilities and are initially measured at the fair value, with the subsequent periodic reevaluations being recorded at amortized cost using the effective interest rate method.

The following table presents a summary of the adjustments made to the consolidated balance sheet at January 1, 2007, following adoption of the new standards.

2 Changes in accounting methods (cont'd)

Accumulated other comprehensive income (note 25)	\$ (864)
and currency conversion (note 18)	\$ (1,562)
Deferred net loss on derivative financial instruments	
Derivative financial instruments – liability	\$ (286)
Sinking fund investments	\$ 984
Increase (decrease) in the following components:	

The Société chose January 1, 2003 as the transition date for the embedded derivatives. An embedded derivative is a component of a financial instrument or another contract having similar characteristics to a derivative financial instrument. This has no effect on the consolidated financial statements.

As of January 1, 2007, the Société added the transaction costs attributable to the acquisition or issuance of a financial asset or liability to the initial accounting value and expensed the operating costs as part of the calculations of the effective interest rate.

b) Financial instruments - Disclosure and Presentation

On January 1, 2007, the Société adopted the requirements of Section 3861 of the CICA Handbook, *Financial Instruments – Disclosure and Presentation*. This section establishes the presentation standards for financial instruments and non-financial derivatives and defines the information to be disclosed.

c) Comprehensive Income

On January 1, 2007, the Société adopted the requirements of Section 1530 of the CICA Handbook, *Comprehensive Income*. This section outlines the standards for presentation and disclosure of the comprehensive income and its components. The other accumulated comprehensive income includes the changes in the fair value of the effective portion of the cash flow hedge instruments as well as the change in the fair value of the available-for-sale investments. The results that had an effect on the other comprehensive income were reported prospectively as of January 1, 2007. The result of the changes in the other comprehensive income is included in the accumulated other comprehensive income, a new category presented in the equity on the consolidated balance sheet.

d) Hedges

On January 1, 2007, the Société adopted the requirements of Section 3865 of the CICA Handbook, *Hedges*. The recommendations in this section clarify the requirements of accounting guideline AcG-13, *Hedging Relationships*. This section indicates when and how to use hedge accounting as well as the information to be disclosed. Hedge accounting allows for the recognition of gains, losses, revenues and expenses resulting from a derivative financial instrument in the same period as those relating to the hedged item.

e) Equity

On January 1, 2007, the Société adopted the requirements of Section 3251 of the CICA Handbook, *Equity*, which replaces Section 3250, *Surplus*. This section covers the standards for the presentation of the Société's equity as well as changes in the equity following adoption of Section 1530, *Comprehensive Income*.

2 Changes in accounting methods (cont'd)

f) Accounting changes

On January 1, 2007, the Société adopted the requirements of the new version of Section 1506 of the CICA Handbook, *Accounting Changes*. This standard specifies that an entity does not need to change its accounting methods unless the change is required by GAAP or in order for financial statements to provide more relevant information. An entity must account for the change in the accounting methods resulting from the application of GAAP in accordance with the specific transitional provisions of the standard, when such requirements are indicated. If the standard does not provide for specific transitional provisions applicable to this change, or if the entity decides to change the accounting methods, the change must be applied retrospectively and prior periods adjusted, unless it is impossible to determine the period-specific effects or the cumulative effect of the change. The standard requires the disclosure of information on changes in accounting estimates during the current period and, unless it is impossible to estimate, for future periods. In the case of errors, the standard requires that an entity must disclose that an error has occurred and the period in which it occurred. In this case, the financial statements are restated. Furthermore, the standard requires that, when a new standard has been published, but is not yet effective, this fact be disclosed along with the expected impact of initial application on the financial statements.

The application of this standard has no effect on the Société's financial statements.

3. Summary of significant accounting policies

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

a) Reporting entity

The consolidated financial statements group together the accounts of the Société and its subsidiaries 9130-8593 Québec Inc. (wholly owned) and Transgesco Limited Partnership (owned at 99.9%).

b) Cash and cash equivalent

The cash and cash equivalents consist of bank balances or bank overdrafts as well as short-term investments whose maturity dates do not exceed three months from the date of purchase. In addition, the sinking fund investments, which the company cannot use for current operations as they are allocated to the repayment of certain long-term debts, are not included in the cash and cash equivalents.

c) Inventories of supplies and replacement parts

The inventories of supplies and replacement parts consist primarily of parts used in the maintenance of the Société's rolling stock and infrastructure. They are valued at the lesser of the average cost or the replacement cost.

3. Summary of significant accounting policies (cont'd)

d) Tangible capital assets

The tangible capital assets are recorded at cost and are amortized over their useful life using the straight line method over the following periods:

Buildings	40 years
Original network and métro extensions	40 and 100 years
Improvements to métro infrastructure	25, 40 and 100 years
Local infrastructure	20 and 40 years
Regional infrastructure	20 and 40 years
Rolling stock – buses	16 years
Rolling stock – minibuses	5 years
Rolling stock – other	5 and 10 years
Leasehold improvements	Length of lease
Office equipment	5 and 10 years
Machinery, tools and equipment	15 years

Tangible capital assets are amortized from the date they are put into service. The capital assets in progress (projects underway) and tangible capital assets withdrawn from service are not subject to amortization.

Tangible capital assets received without consideration are recorded at the cost of the government authority responsible for developing them. The consideration appears under "Deferred subsidies".

The interest on the sums to be used to finance the acquisition of tangible capital assets is capitalized until the assets are put into service.

e) Intangible assets

Intangible assets are recorded at cost, and amortization is calculated over their useful life according to the following methods:

Software	5 years, straight line
Software licences	10 years, straight line

f) Depreciation of long-term assets

The long-term assets are subjected to a recoverability test when events or changes in situation indicate that their accounting value might not be recoverable. A loss in value is recognized when their accounting value exceeds the undiscounted cash flow resulting from their use and from their possible withdrawal. The loss in value recognized is the excess of the accounting value over its fair value.

g) Sinking fund investments

The sinking fund investments are composed primarily of bonds and bond coupons that were recognized in 2006 at amortized cost. As of 2007, the investments are recognized at the bid price fair value as outlined in notes 2 and 12.

3. Summary of significant accounting policies (cont'd)

h) Receivables to be allocated to the repayment of the long-term debt and deferred subsidies. The receivables to be allocated to the repayment of the long-term debt are created upon the issuance of a long-term debt on the basis of the subsidy rates for the various tangible capital assets in progress being financed. These rates are established based on the terms of the Government of Quebec's public transit assistance program and other specific agreements. The receivables to be allocated to the repayment of the long-term debt do not include any interest. The short-term portion consists of anticipated receipts for the following year and can be found under "Subsidies receivable".

As for the deferred subsidies, they are created either upon the issuance of a long-term debt (the counterpart of the receivables to be allocated to the repayment of the long-term debt) or upon the awarding of a cash subsidy for tangible capital assets as part of the public transit assistance program or other specific agreements. They are transferred to income on the same basis as the amortization expense to "Amortization of the subsidies relating to tangible capital assets".

i) Currency conversion

The Société uses the temporal method for the conversion of its accounts expressed in foreign currency.

The revenues and expenses from operations carried out in a foreign currency are converted to Canadian dollars at the prevailing rates on the date of the transactions. The gains and losses on exchange are included in the net income for the year.

The monetary asset and liability components are converted at the rate of exchange in effect on the date of the balance sheet.

j) Fair value of the derivative financial instruments

The Société periodically enters into currency and interest rate swap contracts as well as commodity swap contracts with major financial institutions to protect itself in part against exchange fluctuations relating to its long-term debt denominated in foreign currency and bearing interest at variable rates, as well as to cover certain planned purchases.

The Société does not use financial instruments for speculative purposes. The Société properly documents its objective and strategy for risk management, which form the basis for its hedging activities as well as all the relationships between the hedge instruments and the hedged items. This process consists of connecting all the derivative financial instruments to specific assets and liabilities, to firm commitments or to specific planned operations..

As part of the management of its risks, including commodity, exchange and interest rate risks as described in note 28, the Société uses various derivative financial instruments to establish a cash flow hedge for specific planned operations. As a result, the effective portion of the hedge relationship is recognized in the other comprehensive income, and the ineffective portion is recognized on the consolidated income statement under interest and financing costs (note 11).

Financial Report 2007 STM

3. Summary of significant accounting policies (cont'd)

i) Fair value of the derivative financial instruments (cont'd)

The effective portion of the hedge relationship carried forward in the accumulated other comprehensive income is reclassified in the net income in the same period in which the hedged item affects income. Hedge relationships that do not meet the requirements of hedge accounting, or that are not designated as such, are recognized at the fair value on the balance sheet, and their changes, on the statement of consolidated income.

When a hedging relationship is put in place, and throughout its existence, the Société must have a reasonable assurance that this relationship will be efficient and that it meets the risk management objective and strategy initially documented. When the hedge instruments end or cease to be efficient prior to maturity and are not replaced under the Société's documented hedge strategy, the gains, losses, revenues and expenses attached to the hedge instrument that had been previously recognized in the other comprehensive income following the application of hedge accounting are carried forward to be recognized in net income in the period or periods in which the acquired asset or the assumed liability affects the net income. If the item ceases to exist due to maturity, expiration, cancellation or its exercise before the hedge instrument ends, the gains, losses, revenues and expenses attached to the hedge instrument that had been recognized previously in the other comprehensive income following the application of hedge accounting are recognized in the net income in the period covered by the consolidated financial statements, as are the corresponding gains, losses, revenues and expenses for the hedged item.

The impact of the derivative financial instruments on the net income is presented in note 11.

k) Employee future benefits

The actuarial evaluation of the accrued benefit obligations relating to the pension benefits and other supplementary retirement benefits is based on the projected benefit method prorated on service and incorporates management's best estimate of future changes in salary levels, the rise in other costs, the retirement ages of the employees and other actuarial factors.

These assets are evaluated at their fair value for the purpose of calculating the anticipated rate of return on the plan assets.

The cost of past services resulting from amendments to the plan is deferred and amortized using the straight line method over the average remaining service life of the active employees on the date of the amendments.

The actuarial gains (actuarial losses) result from the difference between the actual long-term return on the plan assets over a period and the anticipated return over this period or the changes made to the actuarial hypotheses used to determine the accrued benefit obligation. The excess of the net cumulated actuarial gain (of the net cumulated actuarial loss) over 10% of the accrued benefit obligation, or over 10% of the fair value of the plan assets if the latter amount is higher, is amortized over the average remaining service life of the active employees.

3. Summary of significant accounting policies (cont'd)

k) Employee future benefits (cont'd)

The average remaining service life of the active employees covered by the pension plans ranges from 6 to 11 years depending on the plan. The average remaining service life of the active employees covered by the supplementary retirement benefit plans is 12.6 years for the supplementary employee retirement benefits and 5.2 years for the post-employment benefits.

I) Recognition of revenue

Revenue from passenger transportation is recognized at the time that the cash payments are made or when passengers use the tickets (single tickets or a strip). As for the weekly and monthly passes, the revenues are recognized in the period for which these passes are valid.

Contributions and subsidies are recognized when the conditions giving right to this government or municipal aid are fulfilled. The subsidies granted for the purchase of tangible capital assets are first recognized as deferred subsidies and are transferred gradually to income at the same rate as the amortization of these tangible capital assets.

The other revenue includes advertising royalties, rental revenue as well as revenue from sinking fund investments that will be used for the repayment of the long-term debt. It is recognized as it is earned.

m) Use of estimates

As part of the consolidated financial statement preparation, and in accordance with Canadian generally accepted accounting principles, management must establish estimates and hypotheses that have an effect on the asset and liability amounts presented and on the presentation of the contingent assets and liabilities on the date of the financial statements as well as on the amounts for operating revenues and expenses recognized during the period covered by the consolidated financial statements. The principal areas that require the use of estimates by management are: useful life for the purpose of amortization, the establishment of the amount for long-term receivables, the establishment of fair values for the derivative financial instruments, the pension benefits and other supplementary employee benefits (post-retirement and post-employment) as well as the liabilities and other claims. As the income is determined on the basis of actual events, it could differ significantly from the above estimates.

4 Future accounting changes

The CICA has published four new accounting standards that the Société is preparing to adopt on a retrospective basis, without restatement, as of January 1, 2008 and January 1, 2009:

a) Stocks

In March 2007, the CICA published Section 3031 of the CICA Handbook, *Stocks*, replacing Section 3030, *Stocks*. This section applies to fiscal years beginning January 1, 2008. This section covers the accounting treatment for stocks such as the measurement of stocks at the lesser of the cost and the net realizable value. It provides guidelines on determination of the cost and its ultimate recognition in expenses, including any depreciation up to the net realizable value and any recovery of the depreciation of the stocks resulting from an increase in the net realizable value.

a) Stocks (cont'd)

It also provides guidelines on the methods for determining the cost, which are used to allocate the costs to the stocks, and details the information to be disclosed on the accounting value of the stocks, the amount of the stocks recognized in expenses and the amounts for depreciation or recovery of depreciation for the stocks. The Société is currently evaluating the effects of the adoption of this new section on its consolidated financial statements.

b) Goodwill and Intangible Assets

In February 2008, the CICA published Section 3064 of the CICA Handbook, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and other Intangible Assets* and Section 3450, *Research and Development Costs*. Changes for purposes of uniformity were made to other sections of the CICA's Handbook. This new section will apply to financial statements for fiscal years beginning on October 1, 2008. As a result, the Société will adopt the new standards during its fiscal year beginning January 1, 2009. The section establishes the recognition, measurement, presentation and information standards applicable to goodwill following its initial recognition and to the intangible assets of for-profit entities. In the case of goodwill, section 3064 includes the same requirements as the previous section 3062. The Société is currently evaluating the effect of the adoption of this new section on its consolidated financial statements.

c) Financial Instruments - Disclosures

In December 2006, the CICA published Section 3862 of the CICA Handbook, *Financial Instruments – Disclosures*, replacing Section 3861, *Financial Instruments – Disclosure and Presentation*. This section applies to fiscal years beginning on October 1, 2007. It describes the information to be disclosed by entities on the importance of financial instruments in relation to the financial position and performance of the entity as well as the nature and scope of the risks from the financial instruments to which the entity is exposed and the way in which the entity manages its risks. This chapter completes the principles for recognition, measurement and presentation outlined in Section 3855, *Financial Instruments – Measurement and Recognition*, Section 3863, *Financial Instruments – Presentation*, and Section 3865, *Hedges*. The Société is currently evaluating the effects of the adoption of this new section on its consolidated financial statements.

d) Financial Instruments - Presentation

In December 2006, the CICA published Section 3863 of the CICA Handbook, *Financial Instruments – Presentation*, replacing Section 3861, *Financial Instruments – Disclosure and Presentation*. This section applies to fiscal years beginning October 1, 2007. It establishes the presentation standards for financial instruments and non-financial derivatives. The Société is currently evaluating the effects of the adoption of this new section on its consolidated financial statements.

5 Passengers

(in thousands of dollars)	2007	2006
Bus and métro service	378,307	362,879
Paratransit service	2,144	2,024
Regional revenues ^(a)	35,204	29,831
	415,655	394,734

⁽a) The regional revenues attributable to the Société are derived from the sharing of revenue from the sale of city transportation fares by the Agence métropolitaine de transport.

6 Subsidies from the government of Quebec

(in thousands of dollars)	2007	2006
Paratransit service (a)	29,865	27,941
Improvements in public transit services (b)	5,086	_
Other	497	52
	35,448	27,993

(a) Paratransit transit government assistance program:

Under the powers conferred on the Transport Minister by order-in-council 279-2005, the Société is eligible for a subsidy of up to 75% of the costs deemed admissible by the ministère des Transports.

(b) Government assistance program for improving public transit services:

Under the powers conferred on the Transport Minister by order-in-council 153-2007, the Société is eligible for a subsidy of up to 50% of the expenses deemed admissible by the ministère des Transports over a period of five years starting in 2007. The objective of this new program, which stems from the Quebec Public Transit Policy, is to increase public transit ridership by 8% between now and 2012.

7 Regional contributions

(in thousands of dollars)	2007	2006
For trips on the métro network ^(a)	44,260	43,933
For trips on city bus lines ^(a)	5,807	5,781
For equipment and infrastructure (b)	1,296	1,464
Fare integration (c)	2,293	1,178
	53,656	52,356

(a) Bus and métro:

The Société receives aid from the Agence métropolitaine de transport for trips taken by bus or métro on the city transportation system.

7 Regional contributions (cont'd)

(b) Regional equipment and infrastructure:

Under article 37 of the *Loi sur l'Agence métropolitaine de transport*, the latter must acquire from the Société the equipment and infrastructure necessary for the city bus transportation system. At December 31, 2007, the contract stipulating the date and terms for the transfer of these assets was not signed. Despite the eventual ownership transfer, the Société remains responsible for the debt relating to this property. However, the Agence reimburses the Société for the operating costs and debt servicing, net of any government subsidy.

(c) Fare integration:

Metropolitan aid paid to transit entities, the objective of which is to ensure that for each fare zone no entity assumes a portion of the discount related to reduced and interim fares that exceeds, for that zone, the discount given to purchasers of TRAM fares (integrated monthly passes providing access to the commuter train, bus and métro networks in the metropolitan area).

8 Contribution from municipalities outside the Montréal agglomeration

On February 22, 2007, the Government of Quebec signed a draft agreement covering the rules for the sharing of the métro deficit for a period of five years from 2007 to 2011. The total contribution of the municipalities outside the Montréal agglomeration is pre-established and fixed for the period of the agreement.

9 Other revenue

(in thousands of dollars)	2007	2006
Advertising	13,157	11,582
Rentals	5,297	4,195
Incidental activities ^(a)	1,028	306
Other	6,677	7,197
	26,159	23,280
	2007	2006
(a) Incidental activities		
Advisory services relating to the project for the Laval métro extension		
Revenues	5,564	8,072
Expenses	(4,628)	(7,881)
	936	191
Other projects		
Revenues	1,360	1,302
Expenses	(1,268)	(1,187)
	92	115
	1,028	306

10 Government contributions and subsidies

(in thousands of dollars)	2007	2006
Amortization of the contributions and subsidies		
relating to tangible capital assets (a) (b)	41,317	42,700
Subsidies from the Government of Quebec relating		
to financing ^(a)	18,886	15,824
Regional contributions relating to financing (c)	567	1,829
	60,770	60,353

(a) Public transit assistance program:

Under the Government of Quebec's public transit assistance program and special agreements, the Société is eligible for subsidies for admissible expenses including interest on the long-term debts relating to bus purchases, building construction, renovation of métro stations, renovation of métro cars and other specific expenses, at rates ranging from 48% to 75%.

(b) Public transit capital assets assistance program:

Under the powers conferred on the Société de financement des infrastructures locales du Québec (SOFIL) by order-in-council 115-2007, the Société is eligible for a subsidy equal to 84.5% of the capital expenditures deemed admissible by the ministère des Transports over a period of five years starting in 2006. To this subsidy is added a 15.5% contribution from the City of Montréal, bringing the total subsidy for admissible expenditures to 100%.

(c) Commuter trains:

The Agence métropolitaine de transport reimburses the long-term interest costs relating to the commuter trains, as the assets have been transferred to the Agence, while the Société retained the debt. The debt comes to maturity on December 12, 2007.

11 Interest and financing costs

(in thousands of dollars)	2007	2006
Interest on the long-term debt	39,475	34,428
Short-term financing costs	8,003	5,535
	47,478	39,963
Financing costs allocated to capital assets in progress	(5,289)	(3,934)
	42,189	36,029
Derivative financial instruments		
Loss (gain) in the value of the derivative financial instruments	4,323	(1,993)
Loss (gain) on the currency conversion on foreign currency debts	(5,991)	3,173
Ineffective portion of the cash flow hedge instruments	(408)	_
Amortization of the deferred net loss on the derivative financial		
instruments and of the deferred gain on currency conversion,		
presented in the other comprehensive income	694	1,578
	40,807	38,787

12 Sinking fund investments

(in thousands of dollars)	2007	2006
	(Fair value)	(Unamortized cost)
Cash	23,448	21,378
Bonds and bond coupons, at fair value (\$98.8 million in 2006),		
(unamortized cost of \$92.9 million in 2007)	93,278	97,830
Interest receivable	654	1,531
	117,380	120,739
Short-term portion	(6,518)	(44,137)
	110,862	76,602

The maturities of the investments held by the Société are as follows:

lr	ovestments guaranteed by the Government of Quebec	Weighted nominal interest rate
2008	34,477	3.98%
2009	19,483	5.37%
2010	3,007	5.89%
2011	7,453	4.99%
2012	12,606	4.35%
More than 5 years	40,354	3.18%
	117,380	

13 Subsidies receivable

(in thousands of dollars)	2007	2006
Government of Quebec		
Capital assets (a)	148,362	37,668
Paratransit service	11,167	9,782
Other	5,673	1,183
	165,202	48,633
City of Montréal		
Capital assets	16,544	_
Agence métropolitaine de transport		
Capital assets ^(a)	2,399	4,032
Other	210	-
	184,355	52,665

⁽a) Includes the short-term portion of the receivables to be transferred to the repayment of the long-term debt (note 17) in the amount of \$50,773 (\$34,763 in 2006).

14 Other receivables

(in thousands of dollars)	2007	2006
Regional revenues	8,224	3,811
Work accident payments recoverable	559	643
Tax claims submitted to governments	3,424	4,540
Accounts receivable	19,759	15,755
Advance payments for the métro extension, interest-free	_	7,504
Contract advances, interest-free	_	968
Other	4,875	3,699
	36,841	36,920

15 Tangible capital assets

(in thousands of dollars)		2007		2006
	Cost	Accumulated amortization	Net book value	Net book value
Land	7,352	_	7,352	7,352
Buildings	183,723	77 , 291	106,432	108,364
Original métro network and extensions	1,454,669	1,240,455	214,214	224,727
Improvements to métro infrastructure	492,918	79 , 528	413,390	299,570
Local infrastructure	12,180	3,682	8,498	8,748
Regional infrastructure	11,499	8,504	2,995	3 , 591
Rolling stock - buses	656,781	332,120	324,661	335,118
Rolling stock - minibuses	10,235	6 , 771	3,464	3,624
Rolling stock - other	32,570	18,146	14,424	14,342
Leasehold improvements	7,189	6,938	251	724
Office equipment	29,582	10 , 572	19 , 010	20,582
Machinery, tools and equipment	108,962	54 , 001	54 , 961	57 , 425
Tangible capital assets in progress	301,103	_	301,103	256,958
	3,308,763	1,838,008	1,470,755	1,341,125

16 Intangible assets

(in thousands of dollars)		2007		2006
	Cost	Accumulated amortization	Net book value	Net book value
Software	54,145	33,852	20,293	19,565
Software licences	5,995	5,995	_	1,019
	60,140	39,847	20,293	20,584

17 Receivables to be allocated to the repayment of the long-term debt

(in thousands of dollars)	2007	2006
Amount recoverable for the repayment of		
the long-term debt (note 22)		
Government of Quebec	455,004	257,591
Agence métropolitaine de transport	_	1,837
	455,004	259,428
Current portion of the receivables to be allocated		
to the repayment of the long-term debt		
(included in the subsidies receivable) (note 13)	(50,773)	(34,763)
	404,231	224,665

18 Other long-term assets

(in thousands of dollars)	2007	2006
Deposit for bus purchase	6,674	6,721
Interim advance – payroll	688	772
Deferred net loss on derivative financial instruments		
and currency conversion	_	1,562
Rents	727	541
Other	1,013	948
	9,102	10,544

19 Short-term loans

The Société has a loan authorization to a limit of \$350.0 million for its current operating expenses and for expenses incurred in accordance with a loan by-law.

Of this amount, a sum of \$310.0 million can be borrowed, in whole or in part, by means of notes, bankers' acceptances or other instruments negotiable through the chartered banks or on the open short-term loan market, at a rate not to exceed the prime rate of the chartered banks. The repayment term of the each of the notes, bankers' acceptances or other instruments must not exceed one year from the date of their issuance. At December 31, 2007, the average rate on the short-term loans was 4.53%, (4.11% in 2006).

The Société also has a line of credit of \$40.0 million in the form of demand notes. The interest rate on this line of credit is the banking institution's base rate calculated on a daily basis and payable on the last day of each month. The average rate for fiscal year 2007 was 6.10%, (5.76% in 2006).

The *Loi sur les sociétés de transport en commun* stipulates that the City of Montréal is guarantor of the Société's commitments and obligations, including the short-term loans contracted by the Société.

20 Accounts payable and accrued liabilities

(in thousands of dollars)	2007	2006
Suppliers and accrued liabilities	72,913	62,562
Salaries and benefits	49,675	22,789
Sick leaves payable	5,062	5,991
Vacations payable	28,005	26,363
Holdbacks on contracts and security deposits	977	1,050
Accrued interest	9,470	6,740
Other	10,327	10,280
	176,429	135,775

21 Derivative financial instruments

Among the various derivative financial instruments that the Société uses are swap contracts for fuel and other swaps linked to an exchange and interest rate for the corresponding long-term debt.

At the end of the year, the Société held the following financial instruments with a positive fair value, presented on the balance sheet under "Fair value of the derivative financial instruments" (assets):

			(in thousa	ınds of dollars)
Description of swap contract	,	Fair value in CAN \$ 2007	Fair value in CAN \$ 2006	
Heating oil	31-12-2008	11,347	1,411	115
Heating oil	31-12-2009	22,624	2,413	_
Heating oil	31-12-2010	44,424	4,535	_
			8,359	115

The swap contract for heating oil maturing December 31, 2008, was recognized at the fair market value. The two other contracts are subject to hedge accounting.

21 Derivative financial instruments (cont'd)

At the end of the year, the Société held the following financial instruments with a negative fair value, presented on the balance sheet under "Fair value of the derivative financial instruments" (liabilities):

(in thousands of dollars) Nominal Term rate of exchange reference Fair value Fair value in CAN\$ in CAN\$ Description Interest CAN\$ / amount in Maturity US\$ or Euro 2007 2006 US\$ or Euro of swap contract rate Interest and exchange rates 12-12-2007 6.090% 1.579 19,000 1,263 (Euro/CAN) Interest and exchange rates (US/CAN) 09-01-2012 5.465% 1.571 30,000 19,587 15,080 Interest and exchange rates (Euro/CAN) 07-06-2017 4.742% 1.507 36,000 2,055 Interest and exchange rates 07-06-2027 (Euro/CAN) 4.921% 1.507 14,000 814 22,456 16,343

The currency and interest rate contract maturing January 9, 2012, was recognized at the fair market value. The two other contracts in effect are subject to hedge accounting.

22 Long-term debt

(in thousands of dollars)	2007	2006
Bonds and bank loans, at fixed interest rates		
anging from 3.25% to 6.85% (3.25% to 8.75% in 2006),		
maturing from February 2008 to February 2027	828,505	604,291
Bank loans and reimbursable term loans		
at variable interest rates based on the US LIBOR rate		
plus a premium of 0.25%, the EURIBOR rate plus a premium		
of 0.06% and 0.075% and the base rate plus 0.35%		
and 0.5%, maturing from June 2009 to June 2027	103,178	64,581
	931,683	668,872
Current portion of long-term debt	(64,030)	(79,979)
	867,653	588,893

The long-term debt consists of bonds and bank loans that are direct and general obligations of the Société. The *Loi sur les sociétés de transport en commun* stipulates that the City of Montréal is guarantor of the Société's commitments and obligations, including the long-term debt contracted by the Société.

The Société used exchange and interest rate swap contracts for loans totalling \$122.5 million (\$77.1 million in 2006). These swaps completely eliminate these exchange and interest rate risks.

22 Long-term debt (cont'd)

The estimated payments on the long-term debt for future years are as follows:

Year of maturity	Canadian dollars	American dollars converted into Canadian dollars	Euros converted into Canadian dollars	Total	Weighted interest rate
2008	64,030	_	_	64,030	_
2009	90,036	_	_	90,036	_
2010	25,642	_	_	25,642	_
2011	28,016	_	_	28,016	_
2012	21,610	29,952	_	51,562	_
1 to 5 years	229,334	29,952	_	259,286	4.57%
6 to 10 years	486,030	_	52,356	538,386	4.84%
11 years and more	113,650	_	20,361	134,011	4.97%
	829,014	29,952	72,717	931,683	a)

⁽a) Of the total amount of \$931.7 million, a sum of \$117.4 million has already been allocated to sinking fund investments (note 12) for the repayment of certain long-term debts at December 31, 2007.

Financial Report 2007 STM

23 Employee future benefits

a) Overall description of employee benefit plans

The Société has a certain number of funded and non-funded defined benefit plans that guarantee the payment of pension benefits, supplementary retirement benefits and post-employment benefits to all employees.

Employees of the Société are active participants in one of the Société's two defined benefit plans. The employees covered by the Syndicat du transport de Montréal (CSN) pay contributions to the Régime de retraite de la Société de transport de Montréal (Syndicat de transport de Montréal CSN) (« Régime CSN »), while the other employees pay their contributions to the Régime de retraite de la Société de transport de Montréal (1992) (« Régime 1992 »). These two plans invest in units of the Fiducie Globale des Régimes de retraite de la Société de transport de Montréal (« Fiducie Globale »), which administers the funds from these two pension plans.

Contributions are calculated on the base salary at a rate of 6% for the employees and 12% for the Société less its share of contributions to the Régime des rentes du Québec.

The benefits paid for service are equal to 2% of the average salary for the three consecutive years with the highest earnings, multiplied by the number of years of credited service in the plan, and cannot exceed 70% of this average salary.

The most recent actuarial valuation of the pension plans for funding purposes was carried out on December 31, 2005, and the next valuation must be carried out on December 31, 2008.

In the case of the "Régime 1992" and the "Régime CSN", the employer cannot use the surplus unilaterally to lower its contributions. In fact, employees must be in agreement in determining the use of the surplus. A portion of the surplus is reserved for the financing of future benefits (the "reserve"). Thus, the expected future benefit is nil, giving rise to the recording of an allowance for valuation that is deducted from the accrued benefit asset. At December 31, 2007, the allowance for valuation stood at \$60.5 million (\$55.7 million in 2006).

The employees of the Société also benefit from a range of supplementary retirement and postemployment benefits including life insurance, health care coverage, banking of sick leave, salary continuance during short-term disability, plans to supplement benefits paid by the CSST and maternity and parental benefits as well as the maintenance of insurance coverage during certain prolonged absences. These benefits vary depending on the work group to which the employee belongs.

The Société evaluates its accrued benefit obligations and the fair value of its plan assets for accounting purposes on August 31 of each year.

	Pensio	n plans	Othe	Other plans	
(in thousands of dollars)	2007	2006	2007	2006	
b) Total cash payments					
Contributions by the Société for					
employee future benefits	34,043	33,047	8,198	7,832	
c) Accrued benefit obligation					
Balance at beginning of year	3,028,991	2,907,584	92,906	88,753	
Cost of services rendered during					
the year	69,786	67,717	7,719	7,400	
Employee contributions	24,059	23,359	_	_	
Interest cost	152,625	14, 311	4,802	4,585	
Benefits paid	(140,712)	(131,302)	(8,198)	(7,832)	
Cost of past services	_	13,584	_	_	
Actuarial losses (actuarial gains) on					
the obligation	(165,005)	738	(2,115)	_	
Balance at end of year	2,969,744	3,028,991	95,114	92,906	
d) Fair value of plan assets					
Balance at beginning of year	3,101,832	2 980,058		_	
Contributions by the Société	34,043	33,047	8,198	7,832	
Employee contributions	24,059	23,359	0,130	7,032	
Actual return on plan assets	374,478	196,670	_	_	
Benefits paid	(140,712)	(131,302)	(8,198)	(7,832)	
Balance at end of year	3,393,700	3,101,832	(0,130)	(7,032)	
balance at the or year	3,333,700	3,101,032			
Composition of plan assets					
Asset category (as a percentage)					
Equity securities	5 %	57%			
Debt securities	33%	32%			
Real property	10%	8%			
Other	3%	3%			
Total	100%	100%			

	Pensio	n plans	Other plans	
(in thousands of dollars)	2007	2006	2007	2006
e) Reconciliation of the funding status				
of the employee benefit plans				
and the amounts in the				
financial statements				
Fair value of plan assets	3,393,700	3,101,832	_	_
Accrued benefit obligation	(2,969,744)	(3,028,991)	(95,114)	(92,906)
Funding status - surplus (deficit)	423,956	72,841	(95,114)	(92,906)
Unamortized cost of past services	11,124	12,385	_	-
Net unamortized actuarial gain	(397,383)	(49,155)	(2,115)	_
Accrued benefit asset (liability)	37,697	36,071	(97,229)	(92,906)
Allowance for valuation for accrued				
benefit asset	(60,455)	(55,745)	_	_
Net liability for valuation allowance	(22,758)	(19,674)	(97,229)	(92,906)

Presentation on the consolidated balance sheet

	2007	2006
Pension plans	(22,758)	(19,674)
Other plans	(97,229)	(92,906)
	(119,987)	(112,580)
Accrued benefit asset	_	47
Accrued benefit liability	(119,987)	(112,627)
	(119,987)	(112,580)

f) Plans whose accrued benefit obligation exceeds the assets

The amounts presented above with regard to the accrued benefit obligation and the fair value of the plan assets at the end of the year include the following amounts relating to the plans that are not entirely funded:

	Pension plans		Other	Other plans	
(in thousands of dollars)	2007	2006	2007	2006	
Accrued benefit obligation	(8,285)	(800,785)	(95,114)	(92,906)	
Fair value of plan assets	1,029	766,956	_	_	
Funding status - deficit	(7,256)	(33,829)	(95,114)	(92,906)	
g) Components of the costs recognized for					
the year for defined benefits					
Cost of services rendered during the year,					
net of employee contributions	69,786	67,717	7,719	7,400	
Interest cost on the accrued	,		,	,	
benefit obligation	152,625	147,311	4,802	4,585	
Actual return on plan assets	(374,478)	(196,670)	· _	· _	
Actuarial loss on the obligation	(165,005)	738	(2,115)	_	
Cost of past services	_	13,584	_	_	
Components of the cost of employee					
future benefits before adjustments					
to take into account the long-term					
nature of this cost	(317,072)	32,680	10,406	11,985	
Alt a state of the					
Adjustments to take into account the					
long-term nature of the cost of the					
employee future benefits					
Difference between the anticipated return and the actual return on the assets	102 222	10.704			
Difference between the actuarial loss	183,223	12,784	_	_	
recognized for the year and the actual amount of the actuarial loss on the					
accrued benefit obligation for the					
year	165,005	(905)	2,115	_	
ycai	103,003	(303)	2,113		
Difference between the amortization of					
the cost of past services for the year					
and the amendments made to the					
plans for the year	1,261	(12,385)	_	_	
plans to the year	349,489	(506)	2,115	_	
Change in the valuation allowance	3 10,700	(300)	2,110		
for the accrued benefit asset	4,710	3,755	_	_	
Costs recognized for the defined	,,,,,	21, 00			
benefits	37,127	35,929	12,521	11,985	

	Pension plans		Other plans	
(in thousands of dollars)	2007	2006	2007	2006
h) Excess of the expense for employee future benefits over the contributions paid				
Costs recognized for defined benefits	37,127	35,929	12,521	11,985
Contributions by the Société	(34,043)	(33,047)	(8,198)	(7,832)
	3,084	2,882	4,323	4,153

Presentation on the consolidated income statement

	2007	2006
Pension plan	3,084	2,882
Other plans	4,323	4,153
Excess of the expense for employee		
future benefits over the contributions paid	7,407	7,035

	Pension _I	olans	Other	olans
(in thousands of dollars)	2007	2006	2007	2006
i) Principal assumptions (weighted rates)				
Cost of benefits (current year)				
Discount rate	5.50%	5.00%	5.20%	5.20%
Anticipated rate of return on the long-term				
pension assets	6.24%	6.24%		
Rate of increase in remuneration	3.00%	3.00%	3.22%	3.22%
Accrued benefit obligation				
(end of year)				
Discount rate	5.50%	5.00%	5.00%	5.20%
Rate of increase in remuneration	3.00%	3.00%	3.22%	3.22%
Assumed health care cost trend rates at December 31				
Initial health care cost trend rate	_	_	6.74%	7.41%
Ultimate health care cost trend rate	_	_	4.52%	4.59%
Year in which the rate should stabilize	-	_	2016	2016

Sensitivity analysis

The assumed health care cost trend rates have a major effect on the amounts presented for the health insurance plans. An increase or decrease of one percentage point in the assumed health care cost trend rates would have had the following repercussions in 2007:

(in thousands of dollars)	2007		
	Increase	Decrease	
Total cost of benefits for services			
rendered and interest cost	269	(228)	
Accrued benefit obligation	2,232	(1,974)	

24 Deferred subsidies

(in thousands of dollars)	2007	2006
Balance at beginning of year	508,753	498,913
Increase	229,470	22,727
Receipts	124,187	29,813
Amortization	(41,317)	(42,700)
Balance at end of year	821,093	508,753

25 Accumulated other comprehensive income

(in thousands of dollars)		2007	
	Available- for-sale assets	Derivative financial instruments	Total
Adoption of new accounting standards (note 2)	984	(1,848)	(864)
Other comprehensive income	(617)	7,282	6,665
Balance at the end of the year	367	5,434	5,801

26 Supplementary information on the statement of cash flows

NET CHANGE IN THE NON-CASH ELEMENTS OF THE WORKING CAPITAL

(in thousands of dollars)	2007	2006
Subsidies and contributions receivable	(119,485)	9,667
Other receivables	79	(11,362)
Inventories of supplies and replacement parts	(1,257)	(3,508)
Accounts payable and accrued liabilities	40,654	10,418
	(80,009)	5,215

OTHER INFORMATION

(in thousands of dollars)	2007	2006
Issuance of receivables to be allocated to the		
repayment of the long-term debt	(229,470)	(22,727)
Increase in deferred subsidies	229,470	22,727
Interest paid on short-term loans not allocated		
to tangible capital assets in progress	2,714	1,707
Interest paid on long-term debt	36,668	33,696

27 Commitments

a) Long-term leases

The Société is committed to paying an amount of \$83.3 million for rental premises under long-term leases expiring from July 31, 2008 to July 31, 2023. The minimum payments required for the next five years amount to \$6.6 million for 2008, \$6.5 million annually for 2009 and 2010 and \$6.3 million annually for 2011 and 2012.

b) Outsourcing of computer centre

The Société is committed to paying a total of \$1.9 million for the years 2008 to 2010 for the outsourcing of its computer centre. Future payments amount to \$1.0 million for 2008, \$0.8 million for 2009 and \$0.1 million for 2010.

c) Service contract for a communications solution integrator

The Société is committed to paying a maximum of \$7.4 million for the years 2008 to 2012. The two principal components of this contract are a company telephone system in the amount of \$6.0 million and Internet access services in the amount of \$1.4 million.

Future payments amount to \$1.5 million annually for the years 2008 to 2011 and \$1.4 million for 2012.

d) Contract for the supply of bus parts

The Société awarded a contract for the supply of city bus parts for a total of \$2.0 million.

At December 31, 2007, the total residual value of this contract was \$1.7 million, with planned use of \$1.0 million in 2008 and \$0.7 million in 2009.

In addition, the Société mandated two Quebec transit companies to proceed with group purchases of city bus parts. The portion of the contracts attributable to the Société de transport de Montréal amounted to \$0.7 million at December 31, 2007, and will be payable in 2008.

27 Commitments (cont'd)

e) Contract for the purchase of city buses

The Société awarded a contract for the purchase of low-floor city buses and a contract for the purchase of articulated buses as part of a group purchase on behalf of the members of the Association du transport urbain du Québec.

The contracts run from 2008 to 2012 and cover the purchase of low-floor buses and articulated buses for all the companies involved. The two contracts include an indexation clause based on the Consumer Price Index and the Industry Price Index as well as on the variation in the American exchange rate (US) and the European exchange rate (EURO) for the portion of the cost of a bus representing American and European content. As a guide, in the case of the low-floor bus, the American content represents 29% of the base cost, while the European content represents 9%. In the case of the articulated buses, the American content represents 23%, and the European content, 6%. The companies have the option of reducing the quantities ordered by 10% or increasing them by 20%.

In the case of the low-floor buses, the Société's share is 305 buses for a total estimated amount of \$141.8 million. Based on the schedule for the delivery of the buses, the deliveries will amount to \$41.8 million in 2008, \$80.4 million in 2009 and \$19.6 million in 2010.

In the case of the articulated buses, the Société's share is 202 buses for a total estimated amount of \$142.6 million. Based on the schedule for the delivery of the buses, there is no delivery planned for 2008, the deliveries will amount to \$40.9 million in 2009, \$57.9 million in 2010 and \$43.8 million in 2011.

f) Asset maintenance program for stationary equipment in the métro

The Société signed a contract with an engineering firm in the amount of \$83.8 million in 2007, of which \$64.3 million remains, to operate a project office responsible for carrying out the asset maintenance program for stationary equipment in the métro. The scheduled payments are \$27.3 million for 2008, \$21.2 million for 2009 and \$15.8 million for 2010.

q) Contract for the maintenance of the fare sales and collection system and equipment

As part of the project to upgrade the fare sales and collection system and equipment, the Société awarded a contract for the maintenance of the software for the system and equipment. Payments for future years amount to \$0.2 million for 2008 and \$2.1 million annually for 2009 to 2013.

h) Contract for the supply of diesel fuel

The Société negotiated a contract with a supplier for the provision of diesel fuel, which covers a predetermined period. The price is based on agreements (swap contracts) with financial institutions and fluctuates according to the price of heating oil. Over the total length of these agreements, running from January 2006 to December 2008, from January 2007 to December 2009 and from January 2008 to December 2010, the Société will have purchased 168.5 million litres at a fixed price, representing a sum of approximately \$91.9 million.

At December 31, 2007, the balance of the Société's commitment amounted to 78.4 million litres for a sum of \$43.1 million.

28 Financial instruments

The Société used derivative financial instruments in the management of risks linked to the price of diesel fuel and to exchange and interest rates, and it does not use them for speculative purposes.

a) Credit risk

In the normal course of its activities, the Société monitors the financial status of its clients and examines the credit history of each new client. The Société considers that there is not a major concentration of credit risk..

b) Commodity risk

In order to mitigate the effects of fluctuations in the price of diesel fuel, the Société uses a hedge strategy that consists of carrying out swap operations on heating oil for a target percentage of future fuel consumption up to three years in advance.

At December 31, 2007, three diesel fuel swaps were in effect (note 21).

c) Interest rate risk

The Société uses interest rate swaps to manage the risks associated with fluctuations in the interest rates on its variable-rate long-term debt. Two of the three swaps in effect on December 31 have been designated as cash flow hedges for accounting purposes (note 21).

At December 31, 2007, these swaps, recorded on the balance sheet (note 21), had a total fair value of \$22.5 million. The portion of this fair value related to interest rate risk is \$2.4 million.

d) Exchange risk

While the Société transacts its business and receives its operating revenues primarily in Canadian dollars, a portion of its expenses, cash and long-term debt is denominated in US dollars and Euros. As a result, the Société's income is affected by fluctuations in the exchange rates between these currencies.

In order to minimize the impact from the conversion into Canadian dollars of the long-term debt denominated in foreign currencies, the Société uses exchange rate swaps, with two of the three swaps designated as hedges for accounting purposes at December 31, 2007.

At December 31, 2007, these swaps, recorded on the balance sheet (note 21), had a total fair value of \$22.5 million. The portion of this fair value related to exchange rate risk is \$20.1 million.

28 Financial instruments (cont'd)

e) Fair value

According to generally accepted accounting principles, the fair value of a financial instrument defines the price at which the instrument could be negotiated between knowledgeable and willing parties dealing at arm's length. The Société uses the following methods and hypotheses to estimate the fair value of each category of financial instrument whose accounting value is presented on the balance sheet under the following accounts:

Cash and short-term investments, subsidies receivable, regional contributions receivable, contribution receivable from municipalities outside the Montréal agglomeration, other receivables, short-term loans as well as payables and accrued liabilities.

The accounting value is moving closer to the fair value as these instruments have an approaching maturity date.

The fair value of the sinking fund investments included in note 12 is established from the bid price values.

The fair value of the derivative financial instruments is determined by means of price-setting models that integrate the actual market prices and the contractual prices of the underlying instruments, the temporal value of the money and the return curves.

The fair value of the long-term debt and the fair value of the receivables to be allocated to the repayment of the long-term debt are determined by means of the present value of future cash flows according to the current financing agreements, based on the interest rate that the Société currently believes it can obtain for the loans having similar conditions and maturities. The fair value of the long-term debt at December 31, 2007, amounts to \$952.5 million (\$685.8 million in 2006), and the fair value of the receivables to be allocated to the repayment of the long-term debt stands at \$466.4 million (\$250.0 million in 2006).

29 Contingencies

The total amount claimed by plaintiffs stands at \$43.2 million. These claims consist of, among others, an application for a class action suit totalling \$40.0 million from users inconvenienced during the strike in 2003. The balance of \$3.2 million in claims is comprised of individual suits, bodily injuries, material damages and various other litigation. At December 31, 2007, the Société made a provision for an amount deemed sufficient for these claims.

30 Event subsequent to the date of the balance sheet

On April 28, 2007, the Agence métropolitaine de transport conveyed to the Société, without consideration, the property relating to the métro extension on the territory of the City of Laval under article 47 of the *Loi sur l'Agence métropolitaine de transport* based on a conveyance agreement of April 28, 2007. On December 21, 2007, this conveyance was tentatively cancelled under a reconveyance agreement of December 21, 2007, so that a new agreement could be negotiated between the two parties prior to February 28, 2008.

The deadline for the reconveyance agreement of December 21, 2007, has been extended to October 31, 2008.

The purpose of this delay is to allow for the conveyance of the said property as well as the related debt according to the terms, which will have no financial impact on the two parties. Thus, if the agreement is firmed up, the Société will become the owner of the assets and debt relating to the extension of the métro on the territory of the City of Laval without, however, having to repay the said debt as it will be subsidized in its entirety by the ministère des Transports du Québec.

This asset and debt transfer will have the effect of increasing the Société's assets and liabilities by an amount of approximately \$1,500.0 million, consisting of \$750.0 million in tangible capital assets and receivables to be allocated to the repayment of the long-term debt as well as \$750.0 million in long-term debt and deferred subsidies. This should have no impact on the Société's consolidated income due to the subsidies received from the ministère des Transports du Québec.

In the event that no agreement has been concluded by October 31, 2008, and no extension has been granted by this date, the Société will become sole owner of the assets as stipulated in the conveyance agreement of April 28, 2007. In the light of current discussions, however, management considers this possibility very unlikely.

31 Differences between the canadian generally accepted accounting principles (GAAP) and the accounting standards applicable to municipal entities published by the public sector accounting board of the CICA

The consolidated financial statements have been established according to Canadian generally accepted accounting principles (GAAP), which differ in certain respects from the standards applicable to municipal entities published by the Public Sector Accounting Board of the CICA.

(in thousands of dollars)	2007	2006
OPERATING REVENUES		
Passengers	415,655	394,734
Contribution from the City of Montréal	306,038	278,000
Subsidies from the Government of Quebec	55,966	41,134
Regional contributions	53,656	58,088
Contribution from municipalities outside the Montréal agglomeration		
(Réseau de transport de Longueuil in 2006)	3,939	1,803
Other revenue	24,506	22,057
	859,760	795,816
EXPENSES		
Bus and métro service	725,061	698,071
Paratransit service	43,007	40,879
Debt servicing and financing costs	76,504	65,125
Unforeseen expenses	_	_
	844,572	804,075
SURPLUS (DEFICIT) BEFORE PRIOR YEAR'S		
ACCUMULATED DEFICIT	15,188	(8,259)
	(, , , , , ,)	(
Accumulated deficit from prior year	(13,606)	(5,347)
SURPLUS (DEFICIT) FOR THE YEAR BASED		
ON PUBLIC SECTOR ACCOUNTING	1,582	(13,606)
Capital assets (a)	(14,781)	(11,014)
Employee future benefits (b)	(1,117)	(5,193)
Financial instruments (c)	1,879	(1,148)
Other ^(d)	20,156	10,600
	6,137	(6,755)
NET PROFIT (NET LOSS) BASED ON GAAP	7,719	(20,361)

(in thousands of dollars)	2007	2006
(a) Capital assets		
Replacement of capital repayment with amortization		
of the capital assets, net of subsidies	(19,969)	(13,222)
Capital assets from revenues, net of subsidy	4,525	1,468
Loss on disposal of assets	(630)	(489)
Repayment from working capital	1,293	1,229
	(14,781)	(11,014)
(b) Employee future benefits		
Post-retirement	(3,447)	(3,319)
Post-employment	(876)	(834)
Pension plans	(3,084)	(2,882)
<u> </u>	(7,407)	(7,035)
Employee future benefits based on the public sector	4,742	_
Provision for future amounts (previously listed as payroll liabilities)	1,548	1,842
	(1,117)	(5,193)
(c) Financial Instruments	1,879	(1,148)
(d) Other		
Revenue from sinking fund investments	6,546	5,317
Elimination of the deferral of the deficit to the following year	13,606	5,347
Harmonization of the accounting policies for		
companies under joint control	4	(64)
	20,156	10,600

32 Related party transactions

The Société is part of the City of Montréal's reporting entity. The operations carried out in the normal course of business with the City of Montréal are recognized at the exchange value.

33 Comparative numbers

Certain comparative numbers from the previous year have been restated so that their presentation conforms with that adopted for the year covered..

34 Opinion of the auditors

The opinion of the auditors does not cover the supplementary information.



PASSENGER REVENUE BY TYPE

(in thousands of dollars)	Budget revised (a)	2007	2006
Bus and métro service			
Regular fare			
Cash	56,627	50,967	51,137
Strip of tickets	70,756	71,876	66,905
CAM	148,663	148,744	139,598
Weekly CAM	29,801	27,146	28,485
	305,847	298,733	286,125
Reduced fare			
Cash	4,315	3,839	3,839
Strip of tickets	14,207	13,993	13,594
CAM	56,981	57,262	54,902
Weekly CAM	2,679	2,437	2,531
	78,182	77,531	74,866
Tourist cards	1,324	1,352	1,306
Allocation of revenue relating to	,-	,	,
commuter trains	691	691	582
	386,044	378,307	362,879
Paratransit service	2,254	2,144	2,024
Regional revenue	32,080	35,204	29,831
	420,378	415,655	394,734

EXPENSES BY TYPE

(in thousands of dollars)	Budget revised (a)	2007	2006
Remuneration	578,243	584,135	566,381
Goods and services			
Major expenses	84,025	76,529	74,849
Professional services	39,277	43,268	37,686
Equipment and supplies	38,855	43,807	38,259
Rentals	8,294	8,160	8,131
Financing costs for operations	77,741	76,504	65,125
Sundry expenses	25,658	12,169	13,644
	273,850	260,437	237,694
	852,093	844,572	804,075

^{a)} The budget has been revised primarily to take into account the impact of the opening of the new métro stations in Laval.

This information was compiled based on the accounting standards applicable to municipal entities published by the Public Sector Accounting Board (note 31).

EXPENSES BY FUNCTION

(in thousands of dollars)	Budget revised (a)	2007	2006
NETWORK OPERATIONS			
Bus network			
Remuneration	286,411	289,810	288,838
Goods and services	49,917	51,032	54,740
	336,328	340,842	343,578
Métro network			
Remuneration	147,347	143,359	135,858
Goods and services	38,366	39,199	37,272
	185,713	182,558	173,130
Paratransit			
Remuneration	18,311	17,666	17,682
Goods and services	25,366	24,207	22,125
	43,677	41,873	39,807
	565,718	565,273	556,515
OPERATIONS SUPPORT			
OFERATIONS SUFFORT			
Management and engineering			
Remuneration	19,139	18,463	16,053
Goods and services	1,676	2,538	1,909
	20,815	21,001	17,962
Surveillance			
Remuneration	14,579	14,035	13,308
Goods and services	1,925	2,167	1,653
	16,504	16,202	14,961
Infrastructure construction and maintena	nce		
Remuneration	22,046	20,594	19,910
Goods and services	7,364	6,264	6,556
	29,410	26,858	26,466
	66,729	64,061	59,389

^{a)} The budget has been revised primarily to take into account the impact of the opening of the new métro stations in Laval.

This information was compiled based on the accounting standards applicable to municipal entities published by the Public Sector Accounting Board (note 31).

EXPENSES BY FUNCTION (CONT'D)

(in thousands of dollars)	Budget revised (a)	2007	2006
ADMINISTRATIVE SERVICES			
Management of shared services			
Remuneration	33,057	32,899	32,478
Goods and services	13,060	13,383	12,282
	46,117	46,282	44,760
Communications and marketing			
Remuneration	11,121	10,565	11,022
Goods and services	5,397	5,094	4,259
dodds and services	16,518	15,659	15,281
Human resources	14.000	10.404	40044
Remuneration	14,022	13,494	13,344
Goods and services	2,610	2,680	3,019
	16,632	16,174	16,363
Corporate services			
Remuneration	5,907	6,306	6,112
Goods and services	1,597	1,763	1,317
	7,504	8,069	7,429
	86,771	86,184	83,833
SPECIAL PROJECTS			
Goods and services	6,116	7,678	4,880
Goods and services	0,110	7,070	
OTHER EXPENSES			
Remuneration	7,387	13,890	10,750
Goods and services	36,021	30,982	23,583
	43,408	44,872	34,333
FINANCING COSTS			
Goods and services	77,741	76,504	65,125
Goods and Services		70,001	
UNFORESEEN EXPENSES			
Goods and services	5,610	_	_
	852,093	844,572	804,075

^{a)} The budget has been revised primarily to take into account the impact of the opening of the new métro stations in Laval.

This information was compiled based on the accounting standards applicable to municipal entities published by the Public Sector Accounting Board (note 31).

LONG-TERM DEBT

(in thousands of dollars)	2007	2006
D. I. 670.000		
Bonds, \$70,000		7,000
8.75%, due September 30, 2007 ^(a)	_	7,000
Bonds, \$30,000		
6.85%, due June 5, 2007	_	3,280
Bonds, \$40,000		
5.70%, due June 4, 2008 ^(a)	11,248	11,248
Bonds, \$35,000		
5.40%, due April 8, 2009 ^(a)	9,005	9,005
Bonds, \$30,000		
5.90%, due August 6, 2009 ^(a)	7,470	7,470
Bonds, \$25,000		
6.70%, due February 16, 2007	_	1,780
6.80%, due February 16, 2008	1,906	1,906
6.85%, due February 16, 2009	2,041	2,041
6.85%, due February 16, 2010	2,186	2,186
Bonds, \$60,000		
4.95%, due November 15, 2007	_	4,120
5.25%, due November 15, 2008	4,334	4,334
5.50%, due November 15, 2009	4,559	4,559
5.70%, due November 15, 2010	4,796	4,796
5.75%, due November 15, 2011	9,586	9,586
Bonds, \$40,000		
4.20%, due October 24, 2007 ^(a)	_	18,130
4.50%, due October 24, 2008	2,960	2,960
4.80%, due October 24, 2009	3,110	3,110
5.00%, due October 24, 2010	3,260	3,260
5.15%, due October 24, 2011	3,430	3,430
5.25%, due October 24, 2012	9,110	9,110
Bonds, \$75,000		
4.25%, due May 6, 2007	_	5,300
4.50%, due May 6, 2008	12,900	12,900
4.80%, due May 6, 2009	5,000	5,000
5.00%, due May 6, 2010	5,300	5,300
5.15%, due May 6, 2011	5,700	5,700
5.30%, due May 6, 2012	6,000	6,000
5.40%, due May 6, 2013	20,600	20,600
Bonds, \$42,000		
3.40%, due August 19, 2007	_	8,390
3.80%, due August 19, 2008	8,720	8,720
4.15%, due August 19, 2009	9,070	9,070

LONG-TERM DEBT (CONT'D)

(en milliers de dollars)	2007	2006
Bonds, \$75,000		
3.25%, due April 27, 2008 ^(a)	19,100	19,100
3.50%, due April 27, 2009	6,900	6,900
3.75%, due April 27, 2010	7,200	7,200
4.00%, due April 27, 2010	6,300	6,300
4.15%, due April 27, 2012	6,500	6,500
4.35%, due April 27, 2012	6,800	6,800
4.50%, due April 27, 2013	7,100	7,100
4.60%, due April 27, 2015	15,100	15,100
Bonds, \$14,000		
4.00%, due November 8, 2007	_	2,600
4.00%, due November 8, 2008	2,700	2,700
4.00%, due November 8, 2009	2,800	2,800
4.00%, due November 8, 2010	2,900	2,900
4.00%, due November 8, 2011	3,000	3,000
Bank loan, \$47,130 ^(b)		
US LIBOR rate plus 0.25%, due January 9, 2012 ^(a)	29,952	34,959
Bank loan, \$54,252 ^(b)		
EURIBOR rate plus 0.06%, due June 7, 2017	52,356	_
Bank loan, \$21,098 (b) EURIBOR rate plus 0.075%, due June 7, 2027	20,361	_
Bank loan, \$30,000 ^(b) US LIBOR rate plus 0.15%, due December 12, 2007 ^(a)	_	29,217
Bank loan, \$40,000 6.769%, due December 9, 2009 ^(a)	40,000	40,000
Bank loan, \$100,000 4.708%, due April 21, 2014 ^(a)	100,000	100,000
Bank loan, \$75,000 5.222%, due October 22, 2014 ^(a)	75,000	75,000
Bank loan, \$60,000 4.665%, due February 24, 2016 ^(a)	60,000	60,000
Bank loan, \$40,000 4.888%, due February 24, 2021 ^(a)	40,000	40,000
Bank loan, \$73,200 4.364%, due January 19, 2017 ^(a)	73,064	-
Bank loan, \$16,300 4.546%, due January 19, 2022 ^(a)	16,270	_

LONG-TERM DEBT (CONT'D)

(en milliers de dollars)	2007	2006
Bank loan, \$10,500 4.596%, due January 19, 2027 ^(a)	10,480	-
Bank loan, \$128,100 5.111%, due November 15, 2017 ^(a)	128,100	-
Bank loan, \$17,700 5.266%, due November 15, 2022 ^(a)	17,700	_
Bank loan, \$29,200 5.32%, due November 15, 2027 ^(a)	29,200	_
Loan Convertible at the base rate plus 0.35%, due December 31, 2016	266	_
Nominal bank loan Base rate plus 0.5%, due in June 2009	243	405
TOTAL	931,683	668,872

⁽a) Portion in sinking fund.

⁽b) Amount that the Société will have to disburse on maturity in accordance with currency exchange swaps.

TOTAL NET LONG-TERM INDEBTEDNESS

	2007	2006
LONG-TERM DEBT		
Bonds and bank loans	931,683	668,872
Amounts accumulated as sinking fund		
investments	(117,380)	(120,739)
Receivables to be allocated to the repayment of the long-term debt		
Government of Quebec	(455,004)	(257,591)
Agence métropolitaine de transport	_	(1,837)
	359,299	288,705
Capital asset expenses to be financed		
long-term	62,930	177,952
Amounts not used from contracted		
long-term loans	(131,791)	(1,442)
	(68,861)	176,510
Subsidies relating to investment		
expenses to be financed ^(a)	(44,156)	(108,481)
Subsidies relating to amounts not used		
from contracted long-term loans (b)	68,667	733
	(44,350)	68,762
TOTAL NET LONG-TERM INDEBTEDNESS	314,949	357,467

- (a) This amount is calculated based on the expenses to be financed in relation to the subsidies attached to the investment expenses. However, this amount is not recorded in the Société's books as the subsidy takes effect only when the longterm debt is actually issued.
- (b) This amount is included in the receivables from the Government of Quebec to be allocated to the repayment of the long-term debt.